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ABSTRACT

The Student Loan Marketing Association ("Sallie Mae") is a government sponsored, private, for profit corporation, created in June 23, 1972, by the enactment of Section 439 of the Higher Education Act of 1965, as amended. Sallie Mae provides liquidity to commercial banks, savings and loan associations, mutual savings banks, credit unions, postsecondary educational institutions, and other lenders in the Guaranteed Student Loan Program (GSLP). Sallie Mae's purpose is to increase the amount of funds these lenders will have available for loans under GSLP. The document is the second annual report of Sallie Mae. After a brief overview of the organization, the document provides information concerning: the board of directors; management; program administration, including Warehouse Advance Program and Loan Purchase Program; impact of Sallie Mae Programs; financing; summary; financial statements; and an appendix that includes legislative and presidential determination. (Author/KE)

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THE SECOND ANNUAL REPORT OF THE STUDENT LOAN MARKETING ASSOCIATION TO THE CONGRESS OF THE UNITED STATES

Covering the Period
January 1, 1974, through December 31, 1974

Student Loan Marketing Association
1750 K Street, N.W.
Washington, D. C. 20006

APR., 1975

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LETTER OF TRANSMITTAL

STUDENT LOAN MARKETING ASSOCIATION
Washington, D. C.

The President of the Senate
The Speaker of the House of Representatives

Sirs:

Pursuant to the provisions of Section 439(n) of Public Law 92-318, submitted herewith is the Second Annual Report of the Student Loan Marketing Association, covering the period January 1, 1974, through December 31, 1974.

Respectfully,

Edward A. McCabe

Edward A. McCabe
Chairman of the Board

FOREWORD

The Second Annual Report of the Student Loan Marketing Association to the Congress of the United States constitutes a full report of the corporation's activities and operations from January 1, 1974, to December 31, 1974, in accordance with the requirements of Section 439(n) of the Higher Education Act of 1965, as amended. The First Annual Report, covering the period from May 13, 1973, to December 31, 1973, submitted in November of 1974, also reflected activities which extended into part of this reporting period.

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OVERVIEW

The Student Loan Marketing Association ("Sallie Mae") is a government sponsored, private, for profit corporation, created on June 23, 1972, by the enactment of Section 439 of the Higher Education Act of 1965, as amended (the "Act"). Sallie Mae provides liquidity to commercial banks, savings and loan associations, mutual savings banks, credit unions, postsecondary educational institutions and other lenders in the Guaranteed Student Loan Program (GSLP). Sallie Mae's purpose is to increase the amount of funds these lenders will have available for loans under the GSLP.

Since 1965 more than $7 billion of long term, low cost loans have been made under the GSLP to students desiring postsecondary education. Under the GSLP the United States Government, half the states and a limited number of nonprofit private agencies insure loans made to students by participating lenders. In addition, the U. S. Government reinsures certain loans insured by these states and private agencies.

Sallie Mae was created in response to a recognized need for a secondary market to provide the opportunity for GSLP participants to finance their student lending activities on a consistent basis. Since it was formally organized in February, 1973, Sallie Mae has worked to develop financially viable programs which take into account the liquidity needs of the guaranteed student loan market. The corporation provides this liquidity through the operation of secondary market and warehousing facilities for insured student loans.

On December 29, 1972, the President of the United States announced the appointment of Sallie Mae's interim Board of Directors. This Board held its first meeting on February 9, 1973. Top priority was given to the selection of a President and Chief Executive Officer who was appointed, after a careful and extensive executive search, in April of 1973. Additional key personnel were also selected enabling Sallie Mae to begin corporate operations under the general direction of the Board. This primarily involved the planning for a Warehousing Advance Program, a Loan Purchase Program and the issue of common stock of Sallie Mae. All of these steps have now been taken.

The Board determined that immediate liquidity assistance to lenders could best be furnished through a Warehousing Advance Program. A decision was made to activate this program so as to have a useful impact on the academic year which began in September, 1973. Implementing that Board decision, Sallie Mae in October, 1973, offered to provide an aggregate of up to $500 million in fixed interest, fixed term warehousing advances to qualified participants in the GSLP. Under the Warehousing Advance Program loans totalling $199,933,000 had been disbursed by December 31, 1974. Of these aggregate disbursements a total of $191,603,000 was outstanding at year end.

In June, 1974, Sallie Mae disclosed its plan to develop a Loan Purchase Program. This purchase program imposes on the corporation the requirement of a greater variety and range of systems and controls than its Warehousing Advance Program. Thus, the first purchase of a guaranteed student loan portfolio was made in September, 1974. The Board of Directors authorized purchases of up to an aggregate of $500 million of guaranteed student loan notes held by GSLP participants. At the close of 1974, three months after the first purchase, approximately $4.4 million in loans had been purchased under this program. Since then Sallie Mae has engaged in negotiations with numerous institutions concerning the purchase of their student loan portfolios. Substantial additional purchase activity is expected during 1975.

The corporation continues to pursue the development of efficient and effective programs in support of the GSLP which will enable those lenders to obtain financing for their student loan investments.

During 1974 Sallie Mae was actively involved in establishing a secure financial structure upon which to base business operations. In June, 1974, the corporation concluded a successful common stock offering resulting in net proceeds to the company of approximately $24 million. Throughout the year the corporation obtained financing for its programs principally through the sale of guaranteed debt obligations to the Federal Financing Bank. As of December 31, 1974, $220 million in obligations were outstanding to this Bank.

THE BOARD OF DIRECTORS

The President of the United States, pursuant to the Act, appointed an interim Board of Directors for Sallie Mae in December of 1972. The Board is composed of 21 members which are equally representative of financial institutions which are eligible lenders under the GSLP, postsecondary educational institutions, and the general public. The Chairman of the Board, a representative of the public sector, is Edward A. McCabe, partner in the Washington-Chicago law firm of Hamel, Park, McCabe and Saunders. The Board selected two Vice Chairmen who are representative of the financial and educational communities. They are Joseph W. Barr and E. Howard Brooks, respectively.

There is currently a vacancy on the Board of Directors. Cassandra M. Birnie, a valuable director representing the public sector, died in August of 1974.

Sallie Mae's enabling legislation provides that a regular Board of Directors be elected and appointed when, in the judgment of the President of the United States, sufficient common stock of the corporation has been purchased by educational and financial institutions.

Following the completion of its initial stock offering, Sallie Mae on September 19, 1974, formally requested the President to make the statutory determination. On January 29, 1975, President Ford announced his determination that sufficient common stock of the corporation had been purchased to warrant an election of directors. A copy of this determination appears in the Appendix to this Report. The election of educational and financial representatives to the Board is scheduled to be held at Sallie Mae's Annual Meeting on April 7, 1975. In the election of directors, educational and financial stockholders will vote cumulatively by class, each class electing seven directors. The remaining seven directors, representing the general public, are to be appointed by the President of the United States. The Chairman of the Board will be appointed by the President from among the 21 directors. Election for the 14 elected directorships will be held annually thereafter, while the seven appointed directors will serve until the President appoints successors.

Since its first meeting in February, 1973, the Board of Directors has held fifteen meetings, six of these in calendar year 1974. Under its leadership, Sallie Mae successfully expanded its warehousing operations, implemented a stock offering and inaugurated its purchase program. To enable the Board to perform its functions effectively, several Board committees have been formed, including an Executive Committee, Finance Committee, Audit Committee, Compensation Committee, Loan Policy Committee, and Education Committee. These committees have met regularly and often throughout 1974.

MANAGEMENT

Under the guidance of Edward A. Fox, President and Chief Executive Officer of Sallie Mae, the corporation has organized to meet the needs of an active secondary market. The current staff now numbers 45, including 9 officers. It is anticipated that additional staff members will be added as operating requirements call for in 1975. Sallie Mae intends to maintain a small, well qualified staff, and when necessary will continue to draw on the expertise of outside personnel to perform specific assignments.

During 1974, the management under the direction of the Board, implemented the corporation's programs and financing arrangements. Sallie Mae continued to work with lending institutions, federal, state and nonprofit private guarantee agencies, the Congress, educational and financial organizations and with other interested groups.

Representatives of Sallie Mae appeared before various Congressional committees on several occasions during the year. Chairman Edward A. McCabe, accompanied by Mr. Allan W. Purdy of the Board, testified before the Special Subcommittee on Education of the House Education and Labor Committee on the activities and operations of Sallie Mae. President Edward A. Fox appeared before the Subcommittee on Education of the Senate Labor and Public Welfare Committee to inform that Committee of Sallie Mae's operations.

PROGRAM ADMINISTRATION

Under its enabling legislation the corporation is authorized pursuant to commitments or otherwise, to make advances on the security of, purchase, service, sell, or otherwise deal in insured student loans at prices and on terms and conditions determined by the Association.

With the initiation of a new Loan Purchase Program and the ongoing warehousing program, the corporation in 1974 continued its efforts to establish an effective secondary market.

WAREHOUSING ADVANCE PROGRAM

Introduced by the corporation in September of 1973, the Warehousing Advance Program resulted in loans aggregating $199,933,000 through December 31, 1974. At year end $191,603,000 in warehousing advances were outstanding. Under this program, Sallie Mae advances funds to lenders who participate in the GSLP, using guaranteed student loan notes in the participants' portfolios as collateral for the warehousing advance. Lenders presently utilizing the Warehousing Advance Program include commercial banks, savings and loan associations, mutual savings banks and postsecondary educational institutions.

As the Warehousing Advance Program matures and expands, an increasing number of institutions are utilizing it to provide financing for their guaranteed student lending activity.

Advances are subject to two basic statutory requirements. First, the advance must be secured by existing guaranteed student loans in an amount equal to at least 125% of the amount of the advance. Secondly, the proceeds of the advance must be reinvested in additional guaranteed student loans.

In 1974, the corporation refined its procedures under this program to handle warehousing advance transactions more efficiently, and to allow institutions to borrow at variable rates and at a wide range of maturities which meet individual needs. Warehousing advances are offered either at stated rates to qualified borrowers for terms ranging from six months to five years or, in the case of the newly introduced variable rate advance, for terms ranging from three to eight years. Currently, Sallie Mae maintains a $100,000 minimum borrowing requirement gradually reduced from a $1 million minimum borrowing requirement at the initiation of this program in September, 1973. The current minimum borrowing requirement encourages a greater variety of institutions to borrow from the corporation, while at the same time enabling Sallie Mae to administer this program efficiently.

Warehousing advances are made either at fixed rates of interest for fixed maturities, or at variable rates of interest for fixed maturities. In cases of fixed rate, fixed maturity advances, loan proceeds must be reinvested in an equal amount of new student loans by the borrower within 24 months or the term of advance, whichever is less. In the case of the variable rate fixed maturity advance, the reinvestment requirement was extended to three years since this corresponds with the minimum term of the advance.

Sallie Mae offers fixed rate, fixed maturity warehousing advances to lenders at rates which are generally below the lenders' alternative sources of funds. Throughout 1974 these interest rates were adjusted to reflect current money market conditions and the cost of funds to Sallie Mae. Under the variable rate warehousing advance, interest payable to Sallie Mae is keyed to the maximum fixed interest payable in respect to guaranteed student loans, currently 7%, plus the periodic special allowance which is authorized under law by the Secretary of Health, Education, and Welfare. This special allowance may range up to 3%, depending on money market conditions. The basic interest charge on a variable rate loan is paid monthly at the rate of 7% per annum. An additional interest payment is payable to Sallie Mae on a quarterly basis, equal to one-half of 1% less than the rate of the special allowance for the quarter for which payment is being made. Sallie Mae also has under consideration a variable rate program keyed to Treasury bill rates.

The average size of a loan under the fixed Warehousing Advance Program was $2.15 million, with a dollar weighted average coupon rate of return of 8.65%. The average maturity was 24.3 months. As of December 31, 1974, variable rate advances in the amount of $5 million were closed and several others were under negotiation.

The Warehousing Advance Program provided a significant amount of funds for guaranteed student loans during the past year. However, expansion in some cases was hindered by interest rates and lenders' interest rate expectations. Some commercial lending institutions have indicated that they have not utilized the Warehousing Advance Program because of the law's requirement that proceeds of warehousing advances be reinvested in additional student loans. Also some lenders have not used Sallie Mae's programs because of the statutory provision which prohibits commercial banks with deposits of $50 million or more from requiring a business relationship with a potential borrower or his family.

All institutions participating in Sallie Mae's Warehousing Advance Program have complied with the terms and conditions imposed by the corporation under this program. In one instance, a

Profile of Warehousing Participants
As of December 31, 1974

	Number of Borrowers	Number of Advances	Dollar Amount of Advances
Financial Institutions:			
Commercial Banks	33	42	$126,215,000
Thrift Institutions	11	12	16,000,000
Subtotal	44	54	$142,215,000
Educational Institutions:			
Colleges & Universities	8	9	$ 4,865,000
Vocational & Trade Schools	11	26	44,523,000
Subtotal	19	35	$ 49,388,000
TOTAL	63	89	$191,603,000

participant in the warehousing program incurred difficulty in meeting its contractual obligations. As of January, 1975, $6 million of a total of $9 million in warehousing advances made by Sallie Mae to this borrower went into default because of the nonpayment of interest. The entire $9 million of these advances are secured by insured student loan notes amounting to at least 125% of that borrower's total indebtedness to Sallie Mae. These notes which comprise Sallie Mae's collateral are in the physical possession of a safekeeping agent selected by Sallie Mae. It is management's opinion that the collateral securing the total $9 million in advances is sufficient, in the event it might become necessary to liquidate the collateral, to recover the total principal amount of the advances, plus accrued but unpaid interest and additional related expenses.

PROGRAM ADMINISTRATION
LOAN PURCHASE PROGRAM

Sallie Mae's secondary market services were significantly enhanced with the introduction of the Loan Purchase Program in September, 1974. This program enables the corporation to purchase existing portfolios of guaranteed student loans from GSLP participants. The Board of Directors has authorized the purchase of up to $500 million in guaranteed student loan notes.

The Loan Purchase Program began in September, 1974 with the initial purchase of $1.8 million in federally guaranteed student loans from the First National Bank of Minneapolis. As of December 31, 1974 approximately $4.4 million had been purchased under this program. At the end of the year, Sallie Mae was discussing probable purchases with 11 financial institution lenders representing potential acquisitions in excess of $28 million.

Loans purchased by Sallie Mae during 1974 generally were at a price below par, with Sallie Mae assuming all of the servicing costs. The price paid for a portfolio of student loans may be at a discount, premium, or par, depending on the characteristics of any given portfolio of student loans under consideration. During 1974 Sallie Mae acquired by purchase only those loans which were in the in-school, deferment, or grace status. Among the significant factors affecting the price paid for loans are the estimated special allowance on the loan, estimated cost of funds to Sallie Mae, the average size and estimated maturity of loans purchased, particular guarantee provisions applicable in case of default, estimated future servicing costs, and the status of the borrower, whether in school, in grace, or in payout.

Unlike the Warehousing Advance Program, there is no statutory reinvestment requirement under the Loan Purchase Program. However, knowledge by lenders of the availability of a purchase program for their loans may well serve as an inducement for further participation by those institutions in the GSLP.

The servicing system for loans purchased under this program was developed by Sallie Mae in consultation with the state and private loan guarantee agencies and with the United States Office of Education. Sallie Mae also worked closely

with major banking institutions which have accumulated experience in servicing large volumes of student loan paper to effect a proper system of controls. The Loan Servicing Guide which the corporation developed describes required servicing standards as well as processing and collection procedures which will enable Sallie Mae, through its agents, to service efficiently the loans it purchases.

Since Sallie Mae does not presently have the capability to service directly the student loans it purchases, the corporation in 1974 entered into a third party servicing agreement with the Student Loan Servicing Center of the First National Bank of Minneapolis, Minneapolis, Minnesota. In January, 1975, Sallie Mae also contracted with Wachovia Services, Inc., a subsidiary of The Wachovia Corporation of Winston-Salem, North Carolina, to be a third-party servicing agent of the corporation. Sallie Mae is currently negotiating with other servicers in this field in order to establish additional high quality, competitive servicing arrangements.

To date, Sallie Mae has purchased only those student loans which have been insured by the federal government under the GSLP. Sallie Mae is currently working with those state or nonprofit, private agencies which have student loan insurance programs under the GSLP to facilitate early purchases of these loans.

Sallie Mae has not yet purchased guaranteed student loans held or originated by educational institutions participating in the GSLP. Administrative regulations published in 1970 by the Office of Education of the Department of Health, Education, and Welfare prohibit educational institutions from selling loan notes they hold at discount except in circumstances approved by the Commissioner (45 CFR 177.6(e)(1)). Sallie Mae's 1972 enabling legislation authorizes the Corporation to ". . . purchase, service, sell or otherwise deal in guaranteed student loans . . ." at prices and on terms and conditions determined by Sallie Mae.

Continuing discussions among the concerned parties are taking place and it is hoped that the matter of sales at discount to Sallie Mae by educational institutions will be satisfactorily resolved in the near future.

In 1975 Sallie Mae expects to expand the volume of loan purchases under this program, consistent with the maintenance of efficient controls and procedures. Expansion of volume in this program should provide lenders with a valuable means of meeting their liquidity needs under the GSLP.

IMPACT OF SALLIE MAE PROGRAMS

In a year when tight credit was a prevalent feature of the financial marketplace, Sallie Mae attempted to maintain a consistent supply of loan funds to qualified GSLP lenders. The corporation expanded the volume of its Warehousing Advance Program, initiated a Loan Purchase Program, and added the variable rate option under

Profile of Participants
In the Loan Purchase Program
As of December 31, 1974

	Number of Participants	Number of Purchases	Principal Amount of Purchases
Financial Institutions:			
Commercial Banks	3	3	$4,391,500
Thrift Institutions	—	—	—
Subtotal	3	3	$4,391,500
Educational Institutions:			
Colleges & Universities	—	—	—
Vocational & Trade Schools	—	—	—
Subtotal	—	—	—
TOTAL	3	3	$4,391,500

the Warehousing Advance Program, thereby providing lenders with greater flexibility in structuring their debt with Sallie Mae.

Commercial banks, savings and loan institutions, mutual savings banks, and postsecondary educational institutions which participate in the Warehousing Advance Program are required to reinvest the proceeds of advances in additional guaranteed student loans, thereby enabling students to take advantage of expanded loan resources. As the Loan Purchase Program expands, a larger number of lenders will be able to sell their loans to the corporation. Knowledge of the availability of an active secondary market should encourage lending institutions to continue to make loans under the GSLP.

Sallie Mae continues to administer these programs under detailed standard terms and conditions developed in 1973 and further refined in 1974. Some of these provisions may assist the operation of the GSLP.

For example, under its Warehousing Advance Program, the corporation, among other things, requires lenders to communicate with the student borrowers during in-school, grace, and authorized deferment periods on a semi-annual basis. This requirement is part of the corporation's emphasis on the need for effective communication between borrowers and lenders as a prerequisite to efficient loan administration. Sallie Mae requires that Warehousing Advance Program participants institute procedures which make students fully aware of their loan repayment obligations, since it is particularly important that students understand the nature of their obligations to assure future and timely repayment.

Under the Loan Purchase Program, the corporation has developed strict standards for the servicing of guaranteed student loans which it owns. It is anticipated that these standards will provide for loan servicing on a timely, effective and efficient basis. As Sallie Mae's experience with controls, reporting requirements, and servicing standards expand, the corporation will periodically review them to determine whether any revisions are needed.

FINANCING

During 1974 the Student Loan Marketing Association completed a successful stock sale and continued to secure appropriate debt financing. Sallie Mae realized a reasonable return on its capital with after tax profits of $317,598 for the business year ending December 31, 1974. During 1975, Sallie Mae hopes to realize a favorable return on capital as a result of continued efficient program operations and through competent money management.

In 1974, pursuant to its authorizing legislation, Sallie Mae's activities were reviewed by the U. S. Department of the Treasury. Results of this review were transmitted by the Secretary of the Treasury to the President and to the Congress of the United States. Sallie Mae continues to utilize Peat, Marwick, Mitchell & Co., Certified Public Accountants, as its auditors.

The Board of Directors, with the special assistance of the Board's Finance, Loan Policy and Audit Committees, has taken an active part in establishing and overseeing rigorous standards in the areas of money management, compliance, systems, and financial accounting. In this regard, Sallie Mae intends to appoint an experienced internal auditor who will report directly to the Board and to the President of the corporation.

STOCK ISSUE

On March 18, 1974, the corporation announced plans to reopen the common stock offering which had originally been announced in July of 1973, but withdrawn due to then unfavorable financial market conditions. Sallie Mae's common stock may be owned only by eligible holders as defined in regulations issued by the Secretary of Health, Education, and Welfare (45 CFR Part 67, 38 Fed. Reg. 28291 (1973)). Holders are principally financial and educational institutions eligible to participate in the GSLP. In April of 1974, the corporation concluded its stock offering with the sale of 160,000 shares at $150 per share of stock. Sallie Mae granted the underwriters of the issue an option to purchase shares for an additional 75 day period ending June 25, 1974, during which an additional 6,667 shares of stock were sold. As a result of the offering, Sallie Mae currently has outstanding 166,667 shares of common stock. The net proceeds after expenses to the corporation were $23,864,792.

The managing underwriters for the stock issue were Lehman Brothers Incorporated; Bank of America NT&SA; The First National Bank of Chicago; Merrill Lynch, Pierce, Fenner & Smith, Incorporated; Morgan Stanley & Co. Incorporated; and Salomon Brothers.

With a few limited exceptions, common stock ownership is required to be eligible to participate in Sallie Mae's programs. In March, 1974, the Board of Directors set the minimum common stock purchase requirement at 100 shares. The stock purchase requirement does not apply to those participants who cannot purchase Sallie Mae common stock due to legal restrictions imposed by state law on the ownership of such stock; provided, however, such participants undertake to make the minimum purchase when restrictions are alleviated. Further, otherwise eligible participants may be relieved of this requirement or subject to a less stringent purchase requirement by determination of the Board of Directors. The Board also determined that any educational institution having annual gross income of less than $1 million attributable to room, board, tuition and fees paid by students, may fulfill the minimum common stock purchase requirement by purchase of 50 shares of common stock. The corporation has reserved the right to adjust the minimum common stock purchase requirement to assure equitable access to its program as they develop.

As of December 31, 1974, there were 571 holders of Sallie Mae common stock. Of this total, 69.9% are financial institutions and 30.1% are educational institutions. The characteristics of holders are further illustrated as follows:

	Shareholders	Percentage of Total Shareholders	Number of Shares Owned	Percentage of Total Shares Outstanding
Financial Institutions:				
National banks	192	33.6%	65,582	39.3%
State banks	111	19.4	28,317	17.0
State savings & loans	31	5.4	3,300	2.0
Federal savings & loans	25	4.4	3,900	2.3
Mutual savings banks	22	3.9	4,000	2.4
Federal credit unions	11	1.9	3,100	1.9
State credit unions	2	.4	1,100	.7
Insurance companies	1	.2	200	.1
Others	4	.7	1,300	.8
Subtotal	399	69.9	110,799	66.5
Educational Institutions:				
Colleges & Universities	148	25.9	42,683	25.6
Vocational schools	24	4.2	13,185	7.9
Subtotal	172	30.1	55,868	33.5
TOTAL	571	100.0%	166,667	100.0%

FINANCING
DEBT MANAGEMENT

The corporation obtains funds for its programs primarily through the sale of its securities and is authorized to issue debt obligations and common and preferred stock. In 1974 Sallie Mae obtained funding for its operations through the issuance of guaranteed debt obligations. These obligations were initially sold through the auction facilities of the Federal Reserve Bank of New York. However, since June, 1974, Sallie Mae has utilized the Federal Financing Bank on an exclusive basis. Currently, Sallie Mae has a total guaranteed debt in the amount of $220 million outstanding, all of which is owned by the Federal Financing Bank.

These guaranteed debt obligations, backed by the full faith and credit of the United States, are issued with the approval of the Secretary of Health, Education, and Welfare and the Secretary of the Treasury. The guarantee of the Secretary of Health, Education, and Welfare may be authorized for any obligations issued by Sallie Mae in accordance with the Act prior to July 1, 1982, regardless of maturity.

In view of the unsettled condition of the money markets in 1974 and the resulting high cost of funds, Sallie Mae chose to issue relatively short

term obligations with the expectation of refinancing such obligations with longer term instruments when more attractive rates became available. As a consequence, during 1974 Sallie Mae entered the money markets at a frequent rate to refinance its outstanding debt. Thus, Sallie Mae, since April of 1974, has refinanced approximately every month.

In most instances, however; these financings did not result in an increase in the total amount of Sallie Mae debt outstanding. In January of 1975, due to changes in the money market resulting in relatively more favorable long term interest rates, Sallie Mae began to structure its debt maturities on a longer term basis. The table below indicates Sallie Mae's debt financing activities during 1974.

As of December 31, 1974, the cumulative amount of debt outstanding by the corporation was $220 million at an average rate of 7.72% weighted by amounts and maturities. The weighted average maturity of this debt was 73 days. It is anticipated that in 1975 Sallie Mae will continue to sell guaranteed debt obligations to the Federal Financing Bank, and the corporation anticipates the amount of debt outstanding will increase in response to the growth of its programs.

SUMMARY

The Guaranteed Student Loan Program has become a primary source of funds for post-secondary education in the United States. Availability of this form of financing is important to a broad sector of the American public. Sallie Mae, a federally chartered, private, for profit corporation, has been established to encourage the additional availability of private capital in support of this important activity.

Throughout 1974, Sallie Mae sought to provide programs which would encourage GSLP lenders to assist student borrowers. Through its Warehousing Advance and Loan Purchase Programs, Sallie Mae has made over $200 million available to lenders. Both programs were developed not only to provide short term liquidity relief, but also to provide long term support for the GSLP.

Sallie Mae intends to monitor its program operations carefully to assure full and efficient program utilization. At the same time, its financing is structured to provide a reasonable return on invested capital. Sallie Mae intends to maintain the high quality program operations it has established so that participants in the GSLP, and those students who utilize it, may be assured of loan liquidity and availability.

Student Loan Marketing Association
Debt Obligations Guaranteed by
Secretary of Health, Education, and Welfare

Date of Issue	Amount of Issue	Maturity of Issue	Total Debt Outstanding
04/04/74	$ 50,000,000	05/02/74	$150,000,000
05/02/74	150,000,000	08/01/74	150,000,000
06/04/74	100,000,000	09/03/74	250,000,000
08/01/74	100,000,000	10/31/74	200,000,000
09/03/74	125,000,000	12/03/74	225,000,000
10/31/74	80,000,000	01/30/75	205,000,000
12/03/74	100,000,000	03/04/75	180,000,000
12/23/74	20,000,000	01/30/75	200,000,000
12/23/74	20,000,000	12/16/75	220,000,000

STUDENT LOAN MARKETING ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1974 and 1973

ASSETS	1974	1973
Loans (note 3):		
Warehousing advances, secured by insured student loans	$191,603,000	$ 75,940,000
Federally insured student loans purchased	4,216,815	—
Total loans	195,819,815	75,940,000
Short-term investments (note 4):		
Securities purchased under agreements to resell	27,095,000	—
Certificates of deposit	23,000,000	25,000,000
Federal funds sold	—	54,650,000
United States Treasury bills	—	38,571,077
Total short-term investments	50,095,000	118,221,077
Interest receivable on loans and investments	2,383,619	912,922
Cash in banks	224,967	86,886
Other assets	428,009	929,688
Total assets	$248,951,410	$196,090,573

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Short-term notes payable (note 5)	$220,000,000	$200,000,000
Interest payable (unamortized discount)	1,877,326	(4,621,766)
Total short-term notes and interest payable	221,877,326	195,378,234
Bank overdraft (note 6)	2,259,996	—
Federal income taxes (note 7)	377,706	84,706
Other liabilities	139,490	513,131
Total liabilities	224,654,518	195,976,071
Stockholders' equity (note 2):		
Common stock, par value $100 per share; authorized 800,000 shares; issued and outstanding, 166,667 shares	16,666,700	—
Additional paid-in capital	7,198,092	—
Retained earnings	432,100	114,502
Total stockholders' equity	24,296,892	114,502
Total liabilities and stockholders' equity	$248,951,410	$196,090,573

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION
STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1974 and 1973

	1974	1973
Income:		
Interest on loans	$11,665,921	$ 995,480
Income from short-term investments	8,938,817	2,804,698
Total income	20,604,738	3,800,178
Expenses:		
Interest	18,371,163	3,278,071
General and administrative expenses:		
Salaries and employee benefits	866,738	135,242
Amortization of preoperating costs	153,449	38,362
Other	602,790	149,295
Total general and administrative expenses	1,622,977	322,899
Total expenses	19,994,140	3,600,970
Earnings before Federal income taxes	610,598	199,208
Federal income taxes (note 3):		
Current	240,300	—
Deferred	52,700	84,706
Total Federal income taxes	293,000	84,706
Net earnings	317,598	114,502
Retained earnings at beginning of year	114,502	—
Retained earnings at end of year	$ 432,100	$ 114,502
Earnings per share of common stock	$2.70	—

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION
STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 1974 and 1973

	1974	1973
SOURCES OF FUNDS:		
From operations:		
Net earnings	$ 317,598	$ 114,502
Charges or (credits) to earnings not affecting funds in current period:		
Accrual of interest expense	(1,400,745)	3,278,071
Accrual of interest income	(1,470,697)	(912,922)
Other	83,771	601,211
Total funds provided from (used in) operations	(2,470,073)	3,080,862
Issuance of common stock	24,500,049	—
Additions to short-term notes payable	27,899,837	192,100,163
Reduction in short-term investments	68,126,077	—
Matured warehousing advances	39,730,000	—
Bank overdraft	2,259,996	—
Total sources of funds	$160,045,886	$195,181,025
USES OF FUNDS:		
Warehousing advances made:		
New loans	$123,993,000	$ 75,940,000
Renewed loans	31,400,000	—
Federally insured student loans purchased	4,218,382	—
Short-term investments	—	118,182,414
Preoperating costs	—	460,348
Costs of issuing common stock	237,649	397,608
Other	58,774	113,769
Increase in cash	138,081	86,886
Total uses of funds	$160,045,886	$195,181,025

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION

Notes to Financial Statements December 31, 1974 and 1973

(1) SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Student Loan Marketing Association ("Sallie Mae") conform to generally accepted accounting principles and to general practice followed by financial institutions. A description of those accounting policies of particular significance follows:

(a) Loans

Warehousing advances are stated at their principal amount. Federally insured student loans purchased are stated at their unpaid principal balance, net of related deferred income, including unearned purchase discount.

(b) Income Recognition on Federally Insured Student Loans

Interest on Federally insured student loans purchased is recognized as income in the period it accrues, adjusted for accretion of purchase discount and income deferral for future servicing costs. The income recognized under this method, when related to the net carrying value of each portfolio of student loans acquired, provides a constant yield, net of estimated future servicing costs, over the estimated remaining terms to maturity of the loans. The effect of subsequent changes in estimates of remaining servicing costs or terms to maturity of the loans will be reflected prospectively in income over the remaining terms. Current servicing costs are charged to expense as incurred. A "special allowance" on the loans, declared and paid quarterly by the Federal Government at varying rates of interest of up to 3 percent per annum, is recognized as income in the quarter to which it relates.

(c) Allowance for Possible Loan Losses

Loans are reviewed periodically to determine any need for a valuation allowance for possible loan losses. If and when a need arises, Sallie Mae will follow the reserve method of providing for these loan losses.

(d) Short-term Investments

Short-term investments are carried at cost, adjusted for the accretion of purchase discount, where applicable. The resulting carrying value approximated market at December 31, 1974 and 1973.

(e) Preoperating Costs

Sallie Mae began its principal operations in October, 1973. Preoperating costs incurred prior thereto were deferred and are being amortized over a 36-month period beginning in October, 1973.

(f) Federal Income Taxes

Sallie Mae recognizes certain income and expense items in different periods for financial reporting and for income tax reporting purposes. Provision for deferred income taxes is made in recognition of these timing differences.

(g) Earnings Per Common Share

Earnings per share of common stock is determined on the basis of the weighted average number of shares outstanding (117,717 shares). Sallie Mae began its principal operations in October, 1973, with borrowed funds, and until April 17, 1974, had no shares of common stock outstanding.

(2) INTERIM OPERATIONS

Sallie Mae, a Government sponsored private for-profit corporation, was created by the 1972 amendments to the Higher Education Act of 1965, as amended, (the "Act"), to provide liquidity, primarily through instituting secondary market and warehousing facilities for Federally insured student loans made by eligible lenders (including educational institutions) under the Guaranteed Student Loan Program ("GSLP"). Sallie Mae has been operating under an interim Board of Directors appointed at the end of 1972, by the President of the United States.

The Act provides that when, in the judgment of the President of the United States, sufficient common stock of Sallie Mae has been purchased by educational and financial institutions, a permanent Board is to be elected and appointed. On January 29, 1975, the President made such a determination and, accordingly, a shareholders' meeting is being scheduled for the spring of 1975, and it is anticipated a regular Board of Directors will be seated shortly after the meeting. In the election of Directors, educational and financial institution stockholders will vote cumulatively by class, each class electing seven Directors. The remaining seven Directors are to be appointed by the President of the United States. The Chairman will continue to be appointed by the President of the United States from among the twenty-one Directors.

Under the Act, issuance of equity and debt securities by Sallie Mae requires the prior authorization or approval of either the Secretary of Health,

Education, and Welfare or the Secretary of the Treasury, or both. Sallie Mae's debt obligations, issued prior to July 1, 1982, may be guaranteed (regardless of maturity date) by the United States Government. Sallie Mae's common stock may only be held by Eligible Holders, as defined in Regulations under the Act, principally financial and educational institutions that are eligible to participate in the GSLP. With a few exceptions, Sallie Mae has required that Eligible Holders acquire a minimum number of shares of its common stock to qualify for a warehousing advance loan or to sell Federally insured student loans to Sallie Mae.

The initial issue of Sallie Mae common stock occurred in April and May, 1974, accounting for the 166,667 shares outstanding at December 31, 1974. Of the $24.5 million proceeds received, the total par value of $100 per share or $16,667,000 was credited to common stock and the balance, net of issuance costs of $635,257, was recorded as additional paid-in capital.

(3) LOANS

(a) Warehousing Advances

Warehousing advances are loans to Eligible Holders for a fixed maturity at either fixed or variable rates of interest. Borrowers under the Warehousing Advance Program are required to assign, as security for such advances, existing insured student loans in an amount not less than 125 percent of the principal amount of the advance. Borrowers are required to reinvest the proceeds from the advances in new insured student loans within a maximum period of two years for fixed rate advances or three years for variable rate advances. As of December 31, 1974, the advances mature in periods of up to seven years, with a weighted average maturity of approximately 24 months (11 months at December 31, 1973).

Fixed rate advances outstanding at December 31, 1974, amounted to $186.6 million and bear interest at rates ranging from 7.7% to 9.75%, or a weighted average interest rate of 8.65%. Variable rate advances of $5 million were also outstanding at December 31, 1974, and earned an interest rate of 9.5% to that date. There were $75.9 million in fixed rate warehousing advances outstanding at December 31, 1973, with a weighted average interest rate of 8.38%.

The average rate earned by the combined fixed and variable rate warehousing advances was 8.47% in 1974, and 8.42% in 1973, based on average warehousing advances of $136,971,000 in 1974, and $48,491,500 from the beginning of operations in October, 1973, to December 31, 1973.

Of the total advances of $191.6 million outstanding at December 31, 1974, $49,388,000 or 25.8% were loaned to educational institutions ($30 million or 39.5% at December 31, 1973) and $142,215,000 or 74.2% were loaned to financial institutions ($45.9 million or 60.5% at December 31, 1973).

(b) Federally Insured Student Loans Purchased

In 1974, Sallie Mae instituted its Loan Purchase Program by acquiring from financial institutions a total of $4,391,500 in principal amount of Federally insured student loans. At December 31, 1974, these student loans had an aggregate unpaid principal balance of $4,382,914, consisting of 3,191 7% notes, principally of borrowers still attending school. Students in school are generally allowed a repayment period of from five to ten years following a grace period of from nine to twelve months after graduation or loss of qualified student status. The exact term of repayment, however, is negotiated with the lender during such grace period. Based on an estimated term to maturity of 90 months, the yield, net of estimated future servicing costs, of the net investment in student loans outstanding at December 31, 1974, is estimated to be 6.25 percent per annum before any "special allowance." Under present law, the "special allowance" can range from zero to three percent per annum.

Federally insured student loans purchased are being serviced for Sallie Mae by a commercial bank under an agreement extending to June 30, 1975. Under the terms of the existing agreement, servicing fee rates are fixed either per borrower or per note, depending on the status of each borrower (in-school, grace or payout). This servicing agreement does not, however, provide for constant rates over the lives of the loans.

(c) Allowance for Possible Loan Losses

At December 31, 1974, no allowance for possible loan losses was deemed necessary. Each warehousing advance, in addition to the credit of the borrower, is supported by an assignment of insured student loans consisting of at least 125% of the principal amount borrowed. Where deemed necessary, this security interest is "perfected" within the meaning of the Uniform Commerical Code. The student loans purchased

by Sallie Mae are Federally insured and warranted to be valid and existing obligations of student borrowers by the selling institutions.

In January, 1975, $6 million out of a total of $9 million of warehousing advances to a single borrower went into default with respect to the nonpayment of interest. All $9 million of these advances are secured by insured student loans of at least 125% of the total borrower's indebtedness, and all collateral is in the possession of a third party safekeeping agent. In the opinion of management, the collateral securing the total $9 million in advances is sufficient, in the event it became necessary to liquidate the collateral, to recover the total principal amount of the advances, plus accrued but unpaid interest, late charges, conversion expenses and the present value of estimated future servicing costs.

(d) Loans to Related Parties

In the normal course of its business, Sallie Mae extends warehousing advances to educational and financial institutions whose officers or directors serve as members of the Board of Directors of Sallie Mae. There were $51 million in such advances outstanding at December 31, 1974, and $25 million at December 31, 1973. Sallie Mae management is of the opinion that these transactions are at such terms as would prevail with unrelated parties.

(4) SHORT-TERM INVESTMENTS

Funds not immediately employed in the Loan Purchase and Warehousing Advance Programs, or used for other general corporate purposes, are invested in various short-term instruments. (See note 5 with respect to investments of proceeds of borrowings from the Federal Financing Bank.) Management anticipates that the relative impact of short-term investment activity will not be so significant to future operating results as it was in 1974.

(5) SHORT-TERM NOTES PAYABLE

Notes payable at December 31, 1974, are guaranteed by the United States Government and consisted of obligations due the Federal Financing Bank at rates ranging from 7.12% to 8.60% or an average rate (weighted by amounts and maturities) of 7.72%. These obligations all mature at various dates in 1975. The proceeds from these obligations, to the extent not used in the financing of its Warehousing Advance and Loan Purchase Programs, are invested in short-term securities consisting of marketable obligations of the United States, marketable obligations issued, guaranteed or fully insured by an agency, instrumentality or corporation of the United States, or resale agreements secured by the above instruments (see note 4).

The average interest rate for short-term notes payable was 8.99% in 1974, and 8.31% in 1973, based on average notes payable of $200,145,000 in 1974, and $161,832,000 from the beginning of operations in October, 1973, to December 31, 1973.

Notes payable at December 31, 1973, consisted of discount notes having an average interest rate of 8.21%. These discount notes were sold at auctions conducted by the Federal Reserve Bank of New York and were guaranteed by the United States Government. All such notes matured in 1974.

(6) BANK OVERDRAFT

In consideration for certain safekeeping, custodial and other services by a commercial bank, Sallie Mae has agreed to maintain a minimum daily average collected cash balance. If, in the normal course of business, an overdraft position results, the agreement requires that the bank be compensated with collected cash balances on other days so that the average is maintained at the daily minimum.

(7) FEDERAL INCOME TAXES

Components of the deferred tax included in Federal income tax expense were as follows:

	1974	1973
Preoperating costs, amortized for financial reporting purposes	$58,051	$70,562
Discount accretion on U. S. Treasury bills reported for tax purposes when received	(18,558)	18,558
Special allowances on Federally insured student loans purchased and variable rate advances, reported for tax purposes when received	8,714	—
Other	4,493	(4,414)
	$52,700	$84,706

By its enabling legislation, Sallie Mae is exempt from state income taxation. Investment tax credit, which was not material in 1974 or 1973, is accounted for by the flow-through method.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1025 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036

The Board of Directors
STUDENT LOAN MARKETING ASSOCIATION:

We have examined the statements of financial position of Student Loan Marketing Association as of December 31, 1974 and 1973 and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Student Loan Marketing Association at December 31, 1974 and 1973 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

January 31, 1975

APPENDIX
Legislative
Presidential Determination

STUDENT LOAN MARKETING ASSOCIATION

SEC. 133. (a) Part B of title IV of the Higher Education Act of 1965 is further amended by adding at the end thereof the following new section:

"STUDENT LOAN MARKETING ASSOCIATION

20 USC 1087-2

"SEC. 439. (a) The Congress hereby declares that it is the purpose of this section to establish a Government-sponsored private corporation which will be financed by private capital and which will serve as a secondary market and warehousing facility for insured student loans, insured by the Commissioner under this part or by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428 (b), and which will provide liquidity for student loan investments.

20 USC 1078. Establishment.

"(b) (1) There is hereby created a body corporate to be known as the Student Loan Marketing Association (hereinafter referred to as the 'Association'). The Association shall have succession until dissolved. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Offices may be established by the Association in such other place or places as it may deem necessary or appropriate for the conduct of its business.

Tax exemption.

"(2) The Association, including its franchise, capital, reserves, surplus, mortgages, or other security holdings, and income shall be exempt from all taxation now or hereafter imposed by any State, territory, possession, Commonwealth, or dependency of the United States, or by the District of Columbia, or by any county, municipality, or local taxing authority, except that any real property of the Association shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

Appropriation.

"(3) There is hereby authorized to be appropriated to the Secretary of Health, Education, and Welfare $5,000,000 for making advances for the purpose of helping to establish the Association. Such advances shall be repaid within such period as the Secretary may deem to be appropriate in light of the maturity and solvency of the Association. Such advances shall bear interest at a rate not less that (A) a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the maturity of such advances, adjusted to the nearest one-eighth of 1 per centum, plus (B) an allowance adequate in the judgment of the Secretary to cover administrative costs and probable losses. Repayments of such advances shall be deposited into miscellaneous receipts of the Treasury.

Advances, interest.

Board of Directors.

"(c) (1) The Association shall have a Board of Directors which shall consist of twenty-one persons, one of whom shall be designated Chairman by the President.

"(2) An interim Board of Directors shall be appointed by the President, one of whom he shall designate as interim Chairman. The interim Board shall consist of twenty-one members, seven of whom shall be representative of banks or other financial institutions which are insured lenders pursuant to this section, seven of whom shall be representative of educational institutions, and seven of whom shall be representative of the general public. The interim Board shall arrange for an initial offering of common and preferred stocks and take whatever other actions are necessary to proceed with the operations of the Association.

"(3) When in the judgment of the President, sufficient common stock of the Association has been purchased by educational institutions and banks or other financial institutions the holders of common stock which are educational institutions shall elect seven members of the Board of Directors and the holders of common stock which are banks or other financial institutions shall elect seven members of the Board of Directors. The President shall appoint the remaining seven directors, who shall be representative of the general public.

"(4) At the time the events described in paragraph (3) have occurred, the interim Board shall turn over the affairs of the Association to the regular Board so chosen or appointed.

"(5) The directors appointed by the President shall serve at the pleasure of the President and until their successors have been appointed and have qualified. The remaining directors shall each be elected for a term ending on the date of the next annual meeting of the common stockholders of the Association, and shall serve until their successors have been elected and have qualified. Any appointive seat on the Board which becomes vacant shall be filled by appointment of the President. Any elective seat on the Board which becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

"(6) The Board of Directors shall meet at the call of its Chairman, but at least semi-annually. The Board shall determine the general policies which shall govern the operations of the Association. The Chairman of the Board shall, with the approval of the Board, select, appoint, and compensate qualified persons to fill the offices as may be provided for in the bylaws, with such executive functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such persons shall be the executive officers of the Association and shall discharge all such executive functions, powers, and duties.

Insured student loans, servicing.

"(d)(1) The Association is authorized, subject to the provisions of this section, pursuant to commitments or otherwise, to make advances on the security of, purchase, service, sell, or otherwise deal in, at prices and on terms and conditions determined by the Association, student loans which are insured by the Commissioner under this part or by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b).

20 USC 1078. Limitation.

"(2) Any warehousing advance made under paragraph (1) of this subsection shall not exceed 80 per centum of the face amount of an insured loan. The proceeds from any such advance shall be invested in additional insured student loans.

Nondiscrimination.

"(e) The Association, pursuant to such criteria as the Board of Directors may prescribe, shall make advances on security or purchase student loans pursuant to subsection (d) only after the Association is assured that the lender (A) does not discriminate by pattern or practice against any particular class or category of students by requiring that, as a condition to the receipt of a loan, the student or his family maintain a business relationship with the lender, except that this clause shall not apply in the case of a loan made by a credit union, savings and loan association, mutual savings bank, institution of higher education or any other lender with less than $50,000,000 in deposits, and (B) does not discriminate on the basis of race, sex, color, creed, or national origin.

Common stock issuance.

"(f)(1) The Association shall have common stock having a par value of $100 per share which may be issued only to lenders under this part, pertaining to guaranteed student loans, who are qualified as insured lenders under this part or who are eligible institutions as defined in section 435(a) (other than an institution outside the United States).

20 USC 1085.

"(2) Each share of common stock shall be entitled to one vote with rights of cumulative voting at all elections of directors. Voting shall be by classes as described in subsection (c)(3).

"(3) The common stock of the Association shall be transferable only as may be prescribed by regulations of the Secretary of Health, Education, and Welfare, and, as to the Association, only on the books of the Association. The Secretary of Health, Education, and Welfare shall prescribe the maximum number of shares of common stock the Association may issue and have outstanding at any one time.

"(4) To the extent that net income is earned and realized, subject to subsection (g)(2), dividends may be declared on common stock by the Board of Directors. Such dividends as may be declared by the Board shall be paid to the holders of outstanding shares of common stock, except that no such dividends shall be payable with respect to any share which has been called for redemption past the effective date of such call.

Nonvoting preferred stock issuance.

"(g)(1) The Association is authorized, with the approval of the Secretary of Health, Education, and Welfare, to issue nonvoting preferred stock with a par value of $100 per share. Any preferred share issued shall be freely transferable, except that, as to the Association, it shall be transferred only on the books of the Association.

"(2) The holders of the preferred shares shall be entitled to such rate of cumulative dividends and such shares shall be subject to such redemption or other conversion provisions, as may be provided for at the time of issuance. No dividends shall be payable on any share of common stock at any time when any dividend is due on any share of preferred stock and has not been paid.

"(3) In the event of any liquidation, dissolution, or winding up of the Association's business, the holders of the preferred shares shall be paid in full at par value thereof, plus all accrued dividends, before the holders of the common shares receive any payment.

Outstanding obligations.

"(h)(1) The Association is authorized with the approval of the Secretary of Health, Education, and Welfare and the Secretary of the Treasury to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Association. Such obligations may be redeemable at the option of the Association before maturity in such manner as may be stipulated therein.

"(2) The Secretary of Health, Education, and Welfare is authorized, prior to July 1, 1982, to guarantee payment when due of principal and interest on obligations issued by the Association in an aggregate amount determined by the Secretary in consultation with the Secretary of the Treasury.

"(3) To enable the Secretary of Health, Education, and Welfare to discharge his responsibilities under guarantees issued by him, he is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Secretary of Health, Education, and Welfare with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the months preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the

31 USC 774.

purposes for which securities may be issued under that Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. There is authorized to be appropriated to the Secretary of Health, Education, and Welfare such sums as may be necessary to pay the principal and interest on the notes or obligations issued by him to the Secretary of the Treasury.

Appropriation.

"(i) The Association shall have power—

Association powers.

"(1) to sue and be sued, complain and defend, in its corporate name and through its own counsel;

"(2) to adopt, alter, and use the corporate seal, which shall be judicially noticed;

"(3) to adopt, amend, and repeal by its Board of Directors, bylaws, rules, and regulations as may be necessary for the conduct of its business;

"(4) to conduct its business, carry on its operations, and have officers and exercise the power granted by this section in any State without regard to any qualification or similar statute in any State;

"(5) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, or mixed, or any interest therein, wherever situated;

"(6) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Association;

"(7) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

"(8) to appoint such officers, attorneys, employees, and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bonds for them and fix the penalty thereof; and

"(9) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

"(j) The accounts of the Association shall be audited annually. Such audits shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States, except that independent public accountants licensed to practice by such regulatory authority after December 31, 1970, and persons who, although not so certified or licensed, meet, in the opinion of the Secretary, standards of education and experience representative of the highest standards prescribed by the licensing authorities of the several States which provide for the continuing licensing of public accountants and which are prescribed by the Secretary in appropriate regulations may perform such audits until December 31, 1975. A report of each such audit shall be furnished to the Secretary of the Treasury. The audit shall be conducted at the place or places where the accounts are normally kept. The representatives of the Secretary shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Association

Annual audit.

Report to Treasury.

and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians.

Reports to President and Congress.

"(k) A report of each such audit for a fiscal year shall be made by the Secretary of the Treasury to the President and to the Congress not later than six months following the close of such fiscal year. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep the President and the Congress informed of the operations and financial condition of the Association, together with such recommendations with respect thereto as the Secretary may deem advisable, including a report of any impairment of capital or lack of sufficient capital noted in the audit. A copy of each report shall be furnished to the Secretary of Health, Education, and Welfare and to the Association.

Lawful investments.

"(l) All obligations issued by the Association shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under authority or control of the United States or of any officer or officers thereof. All stock and obligations issued by the Association pursuant to this section shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States. The Association shall, for the purposes of section 14(b)(2) of the Federal Reserve Act, be deemed to be an agency of the United States.

12 USC 355. Preparation and delivery.

"(m) In order to furnish obligations for delivery by the Association, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Board of Directors may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Association. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Association shall reimburse the Secretary of the Treasury for any expenditures made in the preparation, custody, and delivery of such obligations.

Reimbursement.

Report to President and Congress.

"(n) The Association shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress a report of its operations and activities during each year."

Separability.

(b) If any provision of the amendment made by subsection (a) of this section or the application thereof to any person or circumstance is held invalid, the validity of the remainder of the amendment, and the application of such provisions to other persons or circumstances, shall not be affected.

(c) (1) The sixth sentence of the seventh paragraph of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting "or obligations or other instruments or securities of the Student Loan Marketing Association," immediately after "or obligations, participation, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association,".

(2) Section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), is amended by adding at the end thereof the following new paragraph:

"(14) Obligations of the Student Loan Marketing Association shall not be subject to any limitation based upon such capital and surplus."

(3) The first paragraph of section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(c)), is amended by inserting "or in obligations or other instruments or securities of the Student Loan Marketing Association;" in the second proviso immediately after "any political subdivision thereof".

(4) Section 8(8)(E) of the Federal Credit Union Act, amended (12 U.S.C. 1757 (8)(E)), is amended by inserting before the semicolon at the end thereof the following: "or in obligations or other instruments or securities of the Student Loan Marketing Association".

THE WHITE HOUSE

WASHINGTON

January 29, 1975

Dear Mr. McCabe:

I have today determined that sufficient common stock of the Student Loan Marketing Association has been purchased by educational institutions and banks or other financial institutions. Therefore, I request you to proceed with the election of directors by the stockholders. Enclosed herewith is the memorandum of determination.

Let me take this opportunity to thank you and all the members of the interim Board of Directors for your efforts in guiding the Student Loan Marketing Association during its initial period of operation. I look forward to the future growth of the Association as an important source of funds for lenders who provide loans to postsecondary students.

Sincerely,

Gerald R. Ford

Enclosure

Mr. Edward A. McCabe
Chairman of the Board
Student Loan Marketing Association
1750 K Street, N.W.
Washington, D. C. 20006